

INFORMED BUDGETEER

HOUSE MOVES FY 1997 SUPPLEMENTAL

- The House will take up the FY 1997 “Emergency Supplemental Appropriations Act for Recovery from Natural Disasters, and for Overseas Peacekeeping Efforts, Including Those in Bosnia” this week. The House Appropriations Committee approved the bill April 24. The Senate Committee marks up its bill on April 29.
- The House bill approves the President’s request of \$2 billion in emergency spending for Department of Defense peacekeeping operations in Bosnia and Southwest Asia, offset with \$2 billion in rescissions for inflation savings (-\$307 million), favorable currency exchange rates (-308 million, and specific rescissions (-\$246 million). The House denies the Administration’s request for \$4.8 billion in general rescission authority.
- The House bill adds to the President’s official and unofficial requests for emergency disaster aid to respond to flooding, blizzards, tornadoes and other natural disasters providing about \$3 billion more than requested, largely for the Federal Emergency Management Agency (FEMA).
- The \$5.5 billion in emergency disaster aid in the bill includes \$2 billion officially requested on March 19, \$370 million in “unofficial” requests submitted to respond to current floods, and \$200 million in additional aid for the Dakotas and Minnesota announced by the President earlier this week.
- The House bill includes emergency funding of \$23.2 million for the National Transportation Safety Board investigation of TWA Flight 800, which the President requested.
- Approximately \$100 million in non-emergency domestic supplemental spending is also included for items such as the WIC program (\$38 million), the FAA for explosive detection equipment at airports (\$40 million), revenue foregone for the Postal Service (\$5.3 million), the Federal Election Commission (\$1.7 million), and housing (\$3.5 million).
- The House bill approves the President’s requested \$318 million adjustment to the federal highway obligation ceiling to “fix” the effects of a 1995 accounting error in the crediting of revenues to the Highway Trust Fund.
- The House denies the President’s request for \$921 million in advance 1999 appropriations to pay U.S. arrearage payments to the United Nations.

Summary of FY 1997 Discretionary Supplemental (By fiscal year, BA in millions of dollars)	
	1997
<u>NON-EMERGENCIES</u>	
Defense	-1,983
Non-Defense	-5,508
TOTAL Non -Emergencies	-7,491
<u>EMERGENCIES</u>	
Defense	1,982
Non-Defense	5,509
TOTAL Emergencies	7,491
<u>NON-EMERGENCIES & EMERGENCIES</u>	
Defense	-1
Non-Defense	1
TOTAL	0

SOURCE: Congressional Budget Office

MEDICARE TRUST FUND: 2001 AND BUST!

- On April 24, the Medicare trustees released their annual report on the actuarial status of the Medicare trust funds. As expected, the report shows that the Medicare Hospital Insurance trust fund will go broke sometime in calendar year 2001, just four short years from now. It is difficult to overstate the size of this problem.
- In calendar year 1997, the trust fund will run a deficit of \$13 billion. In 2001, the trust fund will be broke and run a deficit of \$49 billion. At the end of 2006, the trust fund will be \$470 billion in the hole.

- The long-range (75 years) trust fund deficit is 4.32 percent of taxable payroll. In other words, to keep the fund solvent with tax increases only would require raising the current 2.9 percent tax to 7.22 percent -- *immediately*.
- Perhaps the most startling assessment of the trust fund is in the cover letter to Congress accompanying the report, which states:“**To bring the program into actuarial balance, over the next 25 years under intermediate assumptions, would require either that outlays be reduced by 40 percent or that income be increased by 66 percent (or some combination of the two) throughout this period.**”
- The trustees “recommend the earliest possible enactment of legislation to reduce the growth in HI program costs and extend the date of exhaustion of the HI trust fund. Prompt, effective, and decisive action is necessary.”
- The President’s 1998 Budget would extend the solvency of the trust fund through 2007 only because it includes a massive, unfinanced transfer of home health spending (\$86 billion) from the trust fund to the part B trust fund, effectively requiring general fund financing. If this transfer is excluded from his plan, the trust fund would go broke in 2003.

SOCIAL SECURITY TRUST FUNDS DEPLETED IN 2029

- The Trustees for the Social Security program also issued their annual report on April 24.The report shows very little change from last year’s report:
- The trust funds are still expected to go broke in 2029, the same year projected in the 1996 report. The long-term actuarial deficit in Social Security is 2.23 percent of taxable payroll, up from 2.19 percent in the 1996 report.
- Together with the HI trust fund, the long-term actuarial deficit for Social Security and Medicare stands at 6.55 percent of taxable payroll. In other words, if spending in these programs is not controlled, the payroll tax rate would have to increase from a combined employer-employee rate of 15.3 percent to nearly 22 percent *immediately* to keep the trust funds solvent over 75 years.
- The trustees recommend serious evaluation of the Social Security proposals offered by the Advisory Council and other private experts to restore long-term solvency to the trust funds.

USER FEES IN 1998 BUDGET
(AND YOU THOUGHT YOU WERE CONFUSED...)

- Even though the President’s budget was released on February 6 and dissected and analyzed by legions by the next day, in fact there are many complicated components within the voluminous budget that have taken several months to fully appreciate.
- For example, chapter 4 of the *Analytical Perspectives* document of the 1998 budget touches on an Administration proposal to reclassify certain offsetting receipts (on the spending side of the budget) and to dedicate certain governmental receipts (on the revenue side) so that they may be available for discretionary spending. Several times the *Bulletin* thought it understood the proposal, only to get confused again. Recent information from the Office of Management and Budget has clarified some of the implications of the proposal.
- One reason the Administration advocates this conceptual change, which requires amending the Budget Enforcement Act, is to clearly link user fees with the spending on the activity for which the fees are being charged. Further, the Administration aims to provide incentives for agencies to provide services efficiently and for congressional authorizing and appropriation committees to maintain traditional areas of jurisdiction without discouraging the linkage of fees to spending on services. Of course, the proposal also would make available more discretionary spending than would be allowed under existing law.

- The table shows what this proposal means in numerical terms for the affected agencies. With a reclassification of certain offsetting receipts from the mandatory side of the budget to the discretionary side of the budget, an agency such as Veterans Affairs would, under the President’s budget, need an appropriation of only \$18.7 billion in 1998 because it would be allowed to collect and spend another \$591 million in fees, which would offset its total spending of \$19.3 billion.
- Another feature of the Administration’s proposal is that some agencies would be allowed to spend user fees that are governmental receipts (i.e. revenues that result from governmental activity, as opposed to offsetting receipts which result from business-like activity). Currently, governmental receipts can not offset spending. So, in the case of user fees that are classified as government receipts, the Administration proposes an upward adjustment in the discretionary caps related to receipts the government will collect.
- For 1998, the bottom-line impact of this proposal is that agencies would be allowed to spend an additional \$631 million under the existing discretionary cap than they could spend under existing law. In addition, the change in treatment for user fees that are governmental receipts would allow the discretionary BA cap to be adjusted upwards by \$1.342 billion, allowing agencies to spend that much more than under current law.

Impact of President’s User Fee Proposals - FY 1998 Budget (In Millions of Dollars)		
	FY1998	FY98-02
Veterans Affairs:		
Gross BA requested	19,296	97,112
<u>Offset by user fees (OR)</u>	<u>-591</u>	<u>-3,738</u>
Total BA requested	18,705	93,374
Social Security Administration		
Gross BA requested	6,620	33,080
<u>Offset by user fees (OR)</u>	<u>-40</u>	<u>-360</u>
Total BA requested	6,580	32,720
Agriculture Department		
BA requested, excluding user fees	13,270	69,861
<u>BA requested, funded by user fees (GR)</u>	<u>312</u>	<u>1,569</u>
Total BA requested	13,582	71,430
Health and Human Services		
BA requested, excluding user fees	35,127	178,167
<u>BA requested, funded by user fees (GR)</u>	<u>178</u>	<u>1,001</u>
Total BA requested	35,305	179,168
Interior Department		
BA requested, excluding user fees	7,423	37,357
<u>BA requested, funded by user fees (GR)</u>	<u>4</u>	<u>45</u>
Total BA requested	7,427	37,402
Labor Department		
BA requested, excluding user fees	10,758	53,352
<u>BA requested, funded by user fees (GR)</u>	<u>19</u>	<u>169</u>
Total BA requested	10,777	53,521
State Department		
BA requested, excluding user fees	4,471	22,875
<u>BA requested, funded by user fees (GR)</u>	<u>595</u>	<u>2,975</u>
Total BA requested	5,066	25,850
Transportation Department		
BA requested, excluding user fees	12,228	31,911
<u>BA requested, funded by user fees (GR)</u>	<u>225</u>	<u>27,328</u>
Total BA requested	12,453	59,239
Corps of Engineers		
BA requested, excluding user fees	3,687	16,921
<u>BA requested, funded by user fees (GR)</u>	<u>5</u>	<u>47</u>
Total BA requested	3,692	16,968
National Transportation Safety Board		
BA requested, excluding user fees	41	201
<u>BA requested, funded by user fees (GR)</u>	<u>5</u>	<u>23</u>
Total BA requested	46	224
Total, BA Offset by User Fees	631	4,098
Total , BA Funded by User Fees	1,342	33,157
Total, User fees Subject to New Treatment	1,974	37,255
Cap adjustment needed for new user fees:		
BA	1,342	
OL	1,074	

SOURCE: SBC staff based on OMB information. OR- Offsetting Receipts on the Spending side of the budget; GR- Government receipts on revenue side of the budget.

ECONOMICS

BLS’ EXPERIMENTAL CPI INDEX

- In the middle of April, BLS announced that it was launching an experimental CPI index (called CPI-U-XG) which uses geometric means at the lowest level of CPI aggregation. This theoretical index will provide an estimate of the maximum potential amount of lower level substitution bias within the CPI.
- Lower level substitution bias stems from the fact that the current CPI assumes that consumers do not switch between closely related products even when their relative prices change. In contrast, the geometric mean assumes that consumers do respond to relative price changes, by keeping their relative expenditure shares constant.
- Based on historical data, BLS believes the CPI-U-XG will run 0.25 percentage points under an equivalent CPI measure which does not assume geometric means (CPI-U-XL).
- The CPI-U-XG index uses geometric means within all item categories at the lowest level of CPI aggregation. However, this assumption may not be appropriate in the case of housing or medical goods -- consumers do not substitute ulcer medications for high blood pressure drugs simply because the price of one falls relative to the other.
- Over the coming months, BLS will decide which item categories should employ geometric means. BLS will announce its findings by 1998 and will implement the needed changes by 1999. Such changes are expected to shave CPI-U by between 0.0-0.25 percent -- zero if geometric means are not adopted at all, up to 0.25 percent if geometric means are adopted within all individual item categories. Such changes would eliminate lower level substitution bias.
- CPI-U-XG will be released monthly until 1998. In its first release, March CPI-U-XG (on a year over year basis) ran 0.22 percentage points below CPI-U-XL. (Observers will notice small differences between CPI-U-XL and CPI-U. However, this stems from residual differences in rents treatment within these two indices before January 1995 and does not reflect any substantive technical differences.)
- There has been an international move toward geometric mean usage at the lowest level of CPI aggregation. As of 1995, Canada uses them in roughly 2/3 of the lower level categories. Many of the European countries are also adopting geometric means selectively, as a part of the harmonization of EU statistical procedures.
- At present, CBO’s baseline does not assume any CPI reduction from a potential, partial adoption of geometric means by 1999. Keep in mind that lower level substitution bias is just one part of the overall purported CPI bias -- this does not deal with upper level substitution bias or other additional biases referenced in the Boskin Report.

★BUDGET FACTOID★

- During most of the year, daily deposits of nonwithheld individual income and employment taxes into the Treasury range from \$200-\$400 million. But on April 17, 18 and 21, nonwithheld tax deposits totaled \$6.0, \$6.7 and \$14.3 billion respectively. How did they count it so fast?